LAW OFFICES

LOSEE, CARSON, HAAS & CARROLL, P. A.

311 WEST QUAY AVENUE
P. O. BOX 1720
ARTESIA, NEW MEXICO 88211-1720

MARY LYNN BOGLE
ERNEST L. CARROLL
JOEL M. CARSON
DEAN B. CROSS
JAMES E. HAAS
DIANNA L. LUCE

OF COUNSEL
A. J. LOSEE

TELEPHONE
(505) 746-3505

FACSIMILE
(505) 746-6316

MAR 1997 RECEIVED

March 25, 1997

VIA FACSIMILE AND MAIL - 303/231-3194

Minerals Management Service
Royalty Management Program
Rules and Publications Staff
P. O. Box 25165, MS 3101
Denver, Colorado 80225-0165

Attn: Mr. David S. Guzy, Chief

Dear Mr. Guzy:

This office represents Navajo Refining Company ("Navajo") which is located in Artesia, New Mexico. Navajo does not own or operate any federal leases, but it purchases a substantial amount of crude oil and distillate from producers who operate federal leases.

We offer the following comments on behalf of Navajo:

(a) The regulations would only adjust location and quality differentials (WTI/WTS, Cushing/Midland, etc.) once a year. The WTI/WTS differential can vary as much as $4.00 per barrel during that time. An annual adjustment would result in some severe inequities.

(b) Arriving at actual transportation costs would be a nightmare, if not impossible. For instance, Navajo might transport crude by truck from a lease to any of several truck LACTs, depending on its truck dispatching and inventory requirements. Each delivery would then require a MMS-4415 since the transportation would be different.

(c) Some pipeline line transfer fees are on a per barrel basis while others are on a transaction basis so the per barrel cost would vary with the size of the line transfer. While determining actual transportation would be extremely difficult, auditing it would be impossible. The MMS cannot audit its sales in a timely manner now. The compliance costs could be greater than any advantage obtained from the rule change.

(d) The rule is structured so that the MMS receives the benefit of all trading profits, without paying any of the associated costs.

(e) The MMS also would receive any benefits derived from transportation advantages of various refineries, such as Navajo. Transportation costs to Navajo would be cheaper than to Midland, for example, so the MMS would receive a higher price for barrels delivered to Navajo than for barrels delivered to Shell Odessa.

(f) Any exchange agreements with major oil companies where Navajo transports oil from federal leases would be detailed every month on form MMS-4415. If these transactions are subject to FOIA disclosure, then Navajo would have to make proprietary information available to its competitors. This is not acceptable.

Navajo would suggest that insofar as supplies of crude to the Artesia/Lovington refineries are concerned, if the object of the regulation change is to get MMS what it believes is a fairer price than the price it is currently receiving, it should set a standard differential of (for example) $1.00 per barrel below the spot price (either NYMEX or Platt's or equivalent). For example, intermediate crude in West Texas and New Mexico would be priced at Platt's WTI Midland price less $1.00. The average transportation on crude in our area is less than $1.00, but the administrative costs of MMS oil are higher than any other crude. If the index pricing was done in this simplified manner, the MMS would save millions in compliance costs.

Yours truly,

LOSEE, CARSON, HAAS & CARROLL, P.A.

Joel M. Carson

Joel M. Carson

JMC:bjk

xc: Mr. John Knorr